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In the Supreme Court of the United States

October Term, 1950

C. F. WILLIAMS, JR., *Petitioner,*

vs.

HUGHES TOOL COMPANY, *Respondent.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT.

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT.

To the Honorable Chief Justice, and Associate Justices of the United States Supreme Court:

Your petitioner, Clinton F. Williams, Jr., prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Tenth Circuit, entered in the above-entitled case on December 2, 1950. (Petition for rehearing denied on December 29, 1950.)

A certified transcript of the record in this case including the proceedings in said Circuit Court of Appeals, is furnished herewith in accordance with Rule 38 of the Rules of this Court.

Opinions Below.

The opinion of the District Court (R. 15) is reported in 82 F. Supp. 408. The opinion of the Court of Appeals (R. 234) is reported in 87 U. S. P. Q. 354 (Adv. Shts. dated

Dec. 16, 1950). The opinion of the Court of Appeals at the time of this printing had not been published in the Federal Reporter.

Jurisdiction.

The judgment of the Court of Appeals was entered December 2, 1950 (R. 258). The jurisdiction of this Court is invoked under 28 U. S. C., Section 1254(1).

Statement of the Case.

This petition concerns a case that was argued once before the Court of Appeals for the Tenth Circuit, then reargued at the court's request, thereafter considered "in banc" by that court without further argument, and finally decided by a three-to-two majority, with two of the judges who heard the arguments submitting dissenting opinions. The legal points involved have to do with the patent doctrine of repair versus reconstruction, and with restraint of trade, and misuse of patents.

Plaintiff-Respondent, Hughes Tool Company,[1] originally brought this suit against the Defendant-Petitioner, Clinton F. Williams, Jr.,[2] for infringement of two patents, namely, Scott, *et al.*, patent No. 1,983,316, issued December 4, 1934 (R. 141) and Fletcher patent No. 1,856,627, issued May 3, 1932, now expired (R. 145), each relating to a *combination* of elements found in roller cone drill bits used in the drilling of oil wells; for conversion of certain drill bits; and for interference with contracts between Hughes and users of drill bits (R. 1-5).

1. Hereafter called Hughes.
2. Hereafter called Williams.

Williams in his answer (R. 5-11) denied the charges, pleaded affirmatively that Hughes had misused its patents and violated the anti-trust laws; and, counterclaimed for the resultant interference with Williams' business (R. 11-13). Both parties asked injunctive relief (R. 3, 4 and 12).

The evidence disclosed that Williams sharpened the cutting teeth of drill bits by welding a small amount of hard metal (tungsten carbide) onto each dulled tooth (R. 104) in long known fashion (R. 175-178, 199-221). (This is commonly called "retipping.") Thus, Williams performed a service for persons in possession of the bits. He did not buy or sell either new or used bits (R. 103), and the claim that he interfered with Hughes' contracts was based solely upon his activities in retipping for others.

Some of these bits were manufactured by Hughes and distributed by Hughes under the following contract printed on Plaintiff's Exhibit 18 (R. 149):

> "Hughes Roller Rock Bits and all Core Bit Heads are never sold but are leased. When the original cutter teeth and/or bearing have served their useful life, the user will surrender the bits to Hughes Tool Company upon request. In accepting delivery, the user agrees not to surrender any of the tools as mentioned above to other than a duly authorized representative of the Hughes Tool Company."

In the Appendix there is shown a photograph of PX 4 a retipped bit, PX 23 a new bit, and PX 26 a dull bit.

The evidence further disclosed that some of the bits retipped by Williams were made in accordance with two combination patents owned by Hughes. The patents do not cover the teeth of the bits *per se*, for a patent on the shape of the teeth has already been issued and has expired. (R. 193)

Upon delivery of the bits Hughes receives the full price and all bits recaptured are sold as scrap for remelting *only* (R. 137, 138).

The District Court held the patents valid and infringed; the contracts between Hughes and users of the bits valid and enforceable; no misuse of the patents or violations of the anti-trust laws; *but no conversion of the bits* by Williams (R. 15-22). Thus, the District Court adjudged Williams guilty of patent infringement and interference with Hughes' contracts by the act of sharpening, or retipping, the teeth of dull drill bits, and adjudged that he should be enjoined there against (R. 27).

The Court of Appeals for the Tenth Circuit (Judges Phillips, Huxman and Murrah) heard the argument on appeal on January 6, 1950.

On March 17, 1950, the Clerk of the Court for Judge Phillips, informed counsel by letter (R. 230-231) that the patents had been decided to be valid, *"but that retipping of the bits constitutes repair and not reconstruction, and therefore, retipping does not constitute infringement,"* and ordered reargument *only* as to the meaning of and law applicable to the Hughes' contract.

The case was reargued on May 11, 1950, (again before Judges Phillips, Huxman and Murrah), the argument being strictly limited to the contract phase of the litigation.

On June 2, 1950, Chief Judge Phillips informed counsel by letter (Appendix here, p. 27) that the case was to be submitted *to all five members* of the Court of Appeals. The letter seemed to show a desire by the Court that counsel agree to permit the additional members to participate *without reargument of the case,* and counsel therefore did

so. It contained no indication of any intention on the part of the Court to reconsider the question of infringement.

On December 2, 1950, the Court of Appeals "in banc" rendered a decision (R. 234), *the two additional members, who heard none of the arguments, concurring with Chief Judge Phillips* in holding the patents not only valid, *but also infringed* (thus reversing the position indicated in the letter of March 17, 1950), and also holding the contracts valid and enforceable, and not a misuse of the patents, nor in conflict with the anti-trust laws.

Judge Huxman, *who heard both arguments,* and Judge Murrah, *who also heard both arguments,* each wrote a dissent. Both felt that there was no patent infringement. Judge Huxman considered the unexpired patent invalid for want of invention. Judge Murrah did not go so far as to say he believed the patent to be invalid, but his dissent seems to indicate a doubt as to its validity.

Judge Huxman believed the Hughes contract *not to be violated* by Williams' activities in retipping drill bits. Judge Murrah believed that the contracts *were violated, but* he also thought that the contracts restrained trade. Judge Murrah suggested return of the case to the District Court to determine whether or not the restraint was material.

Williams requested a rehearing (R. 261) on the ground that the ruling of the Court of Appeals for the Tenth Circuit was in conflict with the unanimous decision of this Court in *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.,* 320 U. S. 680, and the decision of *Mercoid Corp.* v. *Mid-Continent Investment Co., et al.,* 320 U. S. 661. Rehearing was refused, Judges Huxman and Murrah again dissenting (R. 266).

Questions Presented.

The decision of the Court of Appeals for the Tenth Circuit presents the following questions:

1. May a defendant be prevented from sharpening a dulled tool in an old and long known manner,

(a) by patents directed to a *combination* of parts forming the tool, but not directed to the part sharpened *per se,* nor to any process of sharpening?

(b) by a distribution contract that, for full reward, transfers the tool to a user for all of the use that the tool is ever to have, but attempts to arbitrarily limit the useful life of the tool so as to create an artificially enlarged market for new tools and substantial economic waste?

(c) by any combination of (a) and (b)?

2. Does the use of the patents and contract above, together with business practices and a multiplicity of lawsuits, all designed to prevent the sharpening of dulled tools in an old well known manner, constitute a misuse of the patents, and a violation of the anti-trust laws?

3. May the owner of a combination patent who controls 70% of the market, who markets the patented device and receives the full reward therefor, impose a limitation in time of use by printing a form of "lease" on the delivery ticket that has been construed to permit its recapture after the "useful life" of one element of the combination?

4. Are Fletcher Patent No. 1,856,627 and Scott, *et al.*, Patent No. 1,983,316 valid and infringed?

REASONS FOR GRANTING CERTIORARI.

Certiorari should be granted because the decision below:

(*1*) is of great public importance in that it is seriously injurious to the rights of several large classes of persons, and will wrongly affect the outcome of a large number of other litigations;

(*2*) was made by an oddly divided Court of Appeals in a way that shows an obvious need of guidance by this Court; and

(*3*) establishes important legal precedents on at least two federal questions, which are erroneous, these precedents being in conflict, at least in principle, with applicable decisions of this Court and other Courts of Appeal.

Reason No. 1—Public Importance.

The decision below is not only wrong, and not only establishes several very seriously erroneous precedents of federal law in the Tenth Circuit, but it affects the substantive rights of at least hundreds, and perhaps thousands, of welders and welding shop operators that retip drill bits, the people that sell them welding supplies, the drilling contractors, the oil companies, and eventually the oil-consuming public.

All of these people are affected more or less directly by the economic waste and restraint on competition that will be engendered by the decision of the Court of Appeals for the Tenth Circuit if it is permitted to stand. Since the *great majority*, 60 to 70%, of all drill bits are manufactured by Hughes (R. 229), the retippers will lose most of their busi-

ness, and those who supply them with welding materials will lose a substantial proportion of their business (R. 123). The costs of drilling contractors and of oil companies will be increased and these costs will be passed on to the oil-consuming public.

The Court of Appeals for the Tenth Circuit has sanctioned an industrial featherbedding scheme which could have devastating effects on the National economy, particularly in the time of an emergency. There is today such a shortage of petroleum products, including aviation gasoline, that the military "have not been able to secure its total requirements," and this is a serious situation, due partly, at least, to the fact that "75,000 wells were not drilled in the period of 1941 through 1947 due to the shortage of steel, manpower and money," as was stated by W. A. Chapman, U. S. A. F., Munitions Board, Petroleum Division, in an article, "Drilling Has a Job to Do in Time of War," in the January, 1951 issue of "Drilling" at page 26.[3]

In England where Hughes sells its bits (R. 89) with no pretense of "leasing" it has been found that considerable increased footage per bit can be had from retipping. From the August 18, 1945 issue of "Petroleum Times"[4] there is an interesting article on the importance of retipping, entitled, "Hard Facing and Rebuilding Bits—A New Material Development in Britain." The economic importance of the retipping of drill bits in far Eastern oil fields, and particularly the value of conservation of materials has been clearly set forth at page 660:

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3. Copy in the library of the Bureau of Mines, Washington, D. C.

4. Copy in the library of the Bureau of Mines, Washington, D. C.

"Converting Hard into Soft Formation Bits by 'Tungsit':

"It is usual in drilling medium depth holes to use *one diameter* size bit to casing depth although the *type* of bit used may vary considerably according to the formation. In a hard formation the bit may have run so many hours that the limited remaining life of the bearings would not make re-tipping an economic proposition for further use in the same formation. In such a case it has been found good practice to re-tip the teeth, at the same time altering their shape and number so that the bit becomes suitable for use in softer formations where the load is lighter. This allows the bit to make the maximum footage during the life of its bearings. A typical example from British drilling may be quoted:

> *'A new Hughes OWS bit drilled* 365 *ft. in limestone and shale in* 15 *hours. Probably if run longer, the extra life would have not exceeded* 50 *ft. in three hours. This bit pulled at* 365 *ft. was re-tipped with "Tungsit" and then drilled* 592 *ft. in marls and abrasive sandstone in nine hours before it was finally scrapped'."*

At page 662:

> "There is no doubt that the organised use of re-tipped bits in the British drilling programme according to the foregoing scheme provided a valuable service. At Eakring the increase in footage per bit was 70 per cent. and the system of bit issue and maintenance was of considerable value to the conservation of materials under wartime conditions. Such conservation will be of importance in oilfields under British control for many years to come."

In the present case one drilling contractor testified that he had saved $75,000.00 by retipping (R. 118). This indi-

cates that the saving in the entire oil industry would be enormous.

Still in addition to the bad precedents and individual damage that will be done by the above decision, the above decision will affect, we think wrongly, the decisions that are yet to be made in a number of other actions brought by the plaintiff here against other retipper defendants. The following legal actions against retippers have been suspended pending the decision here:

Hughes Tool Company v. *D. B. Cole,* Civil Action No. 4370, W. D. Okla., filed May 3, 1949, 623 O. G. 321;

Hughes Tool Company v. *B. F. Conaghan,* Civil Action No. 4374, W. D. Okla., filed May 3, 1949, 623 O. G. 321;

Hughes Tool Company v. *R. W. Ford,* Civil Action No. 2537, E. D. Okla., filed May 3, 1949, 623 O. G. 321;

Hughes Tool Company v. *B. F. Shedd,* Civil Action No. 2538, E. D. Okla., filed May 3, 1949, 623 O. G. 321.

Also dependent on the outcome of this case, although perhaps to a lesser degree are the cases of:

Hughes Tool Company v. *Chicago Pneumatic Tool Company,* 90 Fed. Supp. 845, 85 U. S. P. Q. 455 (May 18, 1950), now pending before the Tenth Circuit Court of Appeals;

Hughes Tool Company v. *Robertson Rock Bit Company, Inc., et al.,* Oct. Term, 1949, No. 486 in this Court.

In addition to these cases, the plaintiff has filed and doubtless will continue to file numerous replevin or seques-

tration suits to reclaim "leased" bits that it claims to own (R. 103, 109).

Reason No. 2—Need of Guidance.

The statement of the case shows the difficulty that the Court of Appeals encountered in reaching a decision. This, and the two dissenting opinions by two of the three judges that heard the oral arguments, is eloquent testimony that uncertainty exists as to the law involved and that guidance from this Court is needed.

Reason No. 3—Federal Question No. 1.

REPAIR v. RECONSTRUCTION.

One of the general limits of all patent monopolies is established by the doctrine of repair versus reconstruction. Thus repairing of a patented article does not constitute infringement, but reconstruction does. The line where repair ends and reconstruction begins, therefore, defines an important limit to patent monopolies in general.

This Court set this line in *Wilson* v. *Simpson*, 9 How. 109 (1850), *Cotton Tie Co.* v. *Simmons*, 106 U. S. 89 (1882), *Morgan Envelope Co.* v. *Albany Perforated Wrapping Paper Co.*, 152 U. S. 425 (1894) and *Heyer* v. *Duplicator*, 263 U. S. 100 (1923).

In three of these cases the repair consisted in replacing an obviously temporary part that was clearly intended to be replaced and in the fourth case, *Cotton Tie Co.* v. *Simmons*, the device and its invention was clearly destroyed and rebuilt. Thus, the line between reconstruction and repair was not and did not need to be closely set.

Now, many years later, the Court of Appeals for the

Tenth Circuit has attempted to fix the line more closely, and in so doing has placed it so as to extend the patent monopoly and permit it to infringe upon and stop the normal practice of an old, well known repair art.

Retipping, that is, sharpening dulled drill bit teeth by welding hard metal thereto, was old well before the time of the patents in suit (R. 175, 178, 199-221). Patentee improved the drill bits then in use (not with respect to the form of the teeth, upon which a patent has already expired, R. 193), and was granted the two combination patents in suit. Not content with the normal profit from the sale of such improved bits, patentee attempted to preclude the unpatented teeth of the improved bits from being subjected to the old practice of retipping. This, in turn, increased patentee's market for new bits.

If this practice is permitted, patentees will be able to use their patents to control the making of any normal repair to their products. Shoe manufacturers can stop shoe repairers from half-soling shoes. Tire manufacturers can stop recapping.

Petitioner urges that the Court of Appeals should have followed *Wilson* v. *Simpson*, 9 How. 109, where it is stated that (pp. 122-123):

> "We admit, for such is the rule in *Wilson* v. *Rousseau*, 4 Howard, that when the material of the combination ceases to exist, in whatever way that may occur, the right to renew it depends upon the right to make the invention. If the right to make does not exist, there is no right to rebuild the combination.
>
> "But it does not follow, when one of the elements of the combination has become so much worn as to be inoperative, or has been broken, that the machine no longer exists, for *restoration* to its original use, by the

owner *who has bought its use.* When the wearing or injury is partial, then repair is restoration, and not reconstruction.

"Illustrations of this will occur to any one, from the frequent repairs of many machines for agricultural purposes. Also from the repair and replacement of broken or worn-out parts of larger and more complex combinations for manufactures.

"In either case, repairing partial injuries, whether they occur from accident or from wear and tear, is only refitting a machine for use. And it is no more than that, *though it shall be a replacement of an essential part of a combination.* It is the use of the whole of that which a purchaser buys, when the patentee sells to him a machine; and when he repairs the damages which may be done to it, it is no more than the exercise of that right of care which every one may use to give duration to that which he owns, *or has a right to use as a whole.*" (Emphasis ours.)

This case is not only legal authority for petitioner's position, it is factual anticipation for the idea of renewing the cutting edges of a cutting machine.

Instead of following *Wilson* v. *Simpson* the Court of Appeals held in this case (R. 243-244):

"Williams, by his process of retipping, undertakes to restore the worn-out teeth as nearly as possible to their original form, size and position. He thus reconstructs and replaces that element of each patent wherein lies the novel features of the combination. We hold that so doing is not permissible repair, but reconstruction, constituting infringement."

The above holding of the Court of Appeals for the Tenth Circuit appears to be in direct conflict with the decision of the Court of Appeals for the First Circuit in the

case of *Goodyear* v. *Jackson,* 112 Fed. 146 (1901), wherein it is stated at page 149:

> "* * * When the patented machine has passed outside the monopoly by a sale and purchase, the patentee has no right to impose any restrictions on its use for his own benefit. He cannot forbid the further use of the machine because it is out of repair in consequence of the wearing out or breaking of some of its parts, and so oblige the purchaser to buy a new machine. The purchased machine has become the individual property of the purchaser, and is like any other piece of property which he owns. He may sell it, or he may use it so long as its usefulness lasts, and then throw it away, or dispose of it for junk. He may *prolong its life* and *usefulness by repairs more or less extensive, so long as its original identity is not lost.* He is only prohibited from constructing a substantially new machine * * *."

And at page 155:

> "* * * It cannot be said, therefore, that the replacement by the purchaser of the cam or the pull off lever which moves the pull off truck constituted an infringement of the patent, although it may be this cam was the characteristic and most essential element in the combination. The breaking or *wearing* out of this cam resulted in *only a partial destruction of the patented combination,* and its replacement by a new cam was plainly a *restoration,* and not a substantial reconstruction of the combination." (Emphasis ours.)

The court below, in this case, has held that the dulling of the teeth destroys the dominating, essential part of the combination of each of the two patents involved and hence that retipping infringes. Even though the court below considered the teeth to be "non-expendable," this ruling conflicts with the ruling of the Sixth Circuit Court of Appeals

in *Automotive Parts Co.* v. *Wisconsin Axle Co.*, 81 F. (2d) 125 (1935), where it is stated at page 127:

> "* * * It is not to be decided upon a reasonably expected effective operation of the combination as a whole, the so-called activity or passivity of the parts, or upon convenience or necessities of method in making the replacements. Thus, if the new parts so dominate the structural substance of the whole as to justify the conclusion that it has been made anew, there is a rebuilding or reconstruction; and *conversely*, where the original parts, after replacement, are so large a part of the whole structural substance as to preponderate over the new, there has not been a reconstruction *but only repair.*" (Emphasis ours.)

The present situation is further aggravated by the fact that Hughes has *expired* patents disclosing tipping and retipping (R. 177, 201).

Respondent will no doubt urge the cases of *Southwestern* v. *Hughes*, 98 F. (2d) 42 (C. C. A. 10, 1938) and *Hughes* v. *Owen*, 123 F. (2d) 950 (C. C. A. 5, 1941) for the Court of Appeals in this present case believed it found support in these cases.

Petitioner does not believe that these cases support the present decision and believes that if they did they would be wrong and deserving of review by this Court for the reasons already urged for the present case. However, Judge Murrah in his dissenting opinion very clearly explained why these cases do not support the present decision (R. 250-254).

***Reason No. 3*—Federal Question No. 2.**

RESTRAINT OF TRADE.

Approaching the present problem from another direction we find that the Federal law prohibits certain restraints of trade. These restraints are prohibited by operation of the Sherman and Clayton Acts and also by reason of the common law against monopoly, and the doctrine of misuse of patents as expounded in several decisions of this Court.

In contradistinction to the patent monopoly, we may visualize the area of prohibited restraint as an area inside of which it is prohibited for even a patentee to go, either by the use of patents or contracts. Again, the general principles that determine the boundary are highly important for they determine whether or not our Federal law against undue restraints shall be effective. Petitioner's position here is that the decision below does such violence to these general principles as to permit the Federal law against undue restraints to be avoided and thus rendered largely ineffective.

This Court has stricken down every previous attempt to extend a patent monopoly beyond the limits of the grant. These have involved attempted extensions of time[5], territory[6], resale price[7], use[8], and control of unpatented materials[9].

5. *Wilson* v. *Rousseau*, 4 How. 646 (1846);
Simpson v. *Wilson*, 4 How. 709 (1846);
Bloomer v. *McQuewan*, 14 How. 539 (1852);
Bloomer v. *Millinger*, 1 Wall. 340 (1864).

6. *Adams* v. *Burks*, 84 U. S. 453 (1873);
Hobbie v. *Jennison*, 149 U. S. 355 (1893);
Keeler v. *Standard Folding Bed*, 157 U. S. 659 (1895).

7. *Bauer* v. *O'Donnell*, 229 U. S. 1 (1913);
Straus v. *Victor Talking Machine Co.*, 243 U. S. 490 (1917);
Boston Store v. *American Graphophone Co.*, 246 U. S. 8 (1918);
United States v. *Masonite Corp.*, 316 U. S. 265 (1942).

The situation in the case at bar presents a slightly more difficult problem of restraint than some previous cases because the patentee Hughes has combination patents on drill bits, and in manufacturing and "leasing" the bits tries by an interwoven arrangement of patents, contracts, business practices and lawsuits to prevent the repair of unpatented drill bit teeth, which would prolong the useful life of the bits. The result is the destruction of thousands of still usable bits, thus artificially increasing Hughes' market for new bits.

It may be urged that Hughes' "competitive" position is not improved by the lease, nor its market for new bits "artificially" enlarged. However, it seems of little moment that Hughes sells more bits because retippers are stopped from retipping instead of because another manufacturer is put out of business.

It also seems clear that the market for new bits is enlarged by the practice to which petitioner objects, and since this enlargement is the result of a combination of contracts and patents, instead of the intrinsic requirements of the industry, the enlargement appears to be properly designated as "artificial."

The boundary of the area of illegal restraint of trade appears to be in danger of a serious collapse at the point where a patent monopoly, a contract, or both, may be used

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8. *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917);
United Shoe Machinery Corp. v. *United States*, 258 U. S. 451 (1922).

9. *Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27 (1931);
Leitch Manufacturing Co. v. *Barber Co., Inc.*, 302 U. S. 458 (1938);
Ethyl Gasoline Corp. v. *United States*, 309 U. S. 436 (1940);
Morton Salt Co. v. *Suppiger Co.*, 314 U. S. 488 (1942);
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International Salt Co. v. *United States*, 332 U. S. 392 (1947);
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to prevent the practice of an old well known repair activity, not to benefit a directly competing business of the same kind, but to benefit an indirectly competing business.

The prohibited activity is sharpening, retipping, or repairing generally. The business to be benefited, by artificial enlargement, is the manufacture of new bits, or of any other new article of manufacture. The law as set by the decision below could obviously have serious repercussions in many fields. Thus, shoe manufacturers could prevent the half-soling of shoes and tire manufacturers could prevent re-capping, as mentioned above.

The Court of Appeals for the Tenth Circuit in holding the contract valid and not violative of the anti-trust laws stated in the opinion at page 360 (87 U. S. P. Q. 354, 360) (R. 246):

> "* * * Here, the provision imposes a restriction on the use in point of time and a duty to surrender the bit when the right to use has ended. Beyond that it imposes no requirement, no prohibition and no condition on the lessee. It is not, in our judgment, within the principle of the 'Tie-in' cases."

This holding of the Court of Appeals appears to be in direct conflict with this Court's holding in *United Shoe Machinery Corp., et al.*, v. *United States*, 258 U. S. 451, at page 457:

> "While the clauses enjoined do not contain specific agreements not to use the machinery of a competitor of the lessor, the practical effect of these drastic provisions is to prevent such use. We can entertain no doubt that such provisions as were enjoined are embraced in the broad terms of the Clayton Act which cover all conditions, agreements or understandings of this nature. That such restrictive and tying

agreements must necessarily lessen competition and tend to monopoly is, we believe, equally apparent.",

and at page 458:

"This system of 'tying' restrictions is quite as effective as express covenants could be and practically compels the use of the machinery of the lessor except upon risks which manufacturers will not willingly incur. It is true that the record discloses that in many instances these provisions were not enforced. In some cases they were. In frequent instances it was sufficient to call the attention of the lessee to the fact that they were contained in the lease to insure a compliance with their provisions. The power to enforce them is omnipresent and their restraining influence constantly operates upon competitors and lessees. The fact that the lessor in many instances forebore to enforce these provisions does not make them any less agreements within the condemnation of the Clayton Act."

The principle of the *Shoe Machinery* case is that something more than the lawful monopoly of the patent grant was exerted in the leases to give the Shoe Machinery Corporation a competitive advantage and that this was in violation of the Clayton Act. The Court of Appeals in this case apparently considered that the monopoly granted by the combination patents of Hughes could be broadened by a "lease" to preclude a repair service, not covered by the grant, thus giving Hughes a competitive advantage that according to the *Shoe Machinery* case it should not have.

In the Hughes contract in addition to the affirmative covenant asserted to limit the useful life of the bit to one dulling of the teeth, there is asserted to be an implied negative covenant not to have the unpatented dull teeth repaired. The principle involved is no different from the indirect *ex parte* restriction not to use the machinery of a

competitor, which was condemned in the *Shoe Machinery* case.

The Court of Appeals for the Tenth Circuit in holding that the contract did not contain specific restrictions in restraint of trade is in conflict with the Circuit Court of Appeals for the Third Circuit and the Sixth Circuit in the cases of *Radio Corp.* v. *Lord,* 28 F. (2d) 257 (1928); and *Landis Machinery Co.* v. *Chaso Tool Co.,* 141 F. (2d) 800, 61 U. S. P. Q. 164 (1944), respectively.

In the *Radio* case, the Court stated at page 261:

> "Was the contract for the sale of vacuum tubes made on condition that the purchaser should not use or deal in the goods of a competitor of the seller? The District Judge found that there was no 'explicit condition or agreement to that effect,' but that the evidence before him was conclusive that the practical effect of paragraph 9 was to prevent the licensees from using or dealing in tubes other than those sold by the defendant; that its provisions were as effective as express covenants would be, and practically compelled the use of the tubes of the defendant in all receiving sets made by the licensees, except upon risks which manufacturers will not incur; and that such agreements were prohibited by the Clayton Act. *Standard Fashion Co.* v. *Magrane-Houston Co.,* 258 U. S. 346, 355, 42 S. Ct. 360, 66 L. Ed. 653; *United Shoe Machinery Corp.* v. *United States,* 258 U. S. 451, 457, 458, 42 S. Ct. 363, 66 L. Ed. 708."

In the *Landis Machinery* case, the Court stated at page 804:

> "* * * Compulsion is there whether expressed or not. Since the only justification for the monopoly thus sought over unpatented chasers is based upon the patent grants, and these proving of no avail for such purpose, the plaintiff's practices are clearly in violation of

the anti-trust laws. That which the patent law does not authorize the Clayton Act specifically forbids."

It will be apparent that the ruling of the Tenth Circuit considered that the terminology of the Hughes lease agreement did not expressly prohibit or restrain anything, but only imposed a limitation as to time. Yet the business activities of Hughes in enforcing its "lease" clearly discloses that in practical effect the restraint is there whether expressed or not, and this Court of Appeals' ruling is in obvious conflict with the above decisions in the Third and Sixth Circuits.

The holding of the Court of Appeals for the Tenth Circuit is that Hughes may, by a patent on a combination of parts forming a drill bit, exercise control over an unpatented part of that combination, namely the teeth, and thus reap a special benefit or profit. This ruling appears to petitioner to be in direct conflict with this Court's unanimous opinion in *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680, stating at page 684:

> "The fact that an unpatented part of a combination patent *may distinguish* the invention does not draw to it the privileges of a patent. That may be done only in the manner provided by law. However worthy it may be, however essential to the patent, an unpatented part of a *combination* patent is no more entitled to monopolistic protection than any other unpatented device. For as we pointed out in *Mercoid* v. *Mid-Continent Investment Co., supra, a patent on a combination* is a patent on the assembled or functioning whole, *not on the separate parts.* The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law. For the reasons stated in *Mercoid* v. *Mid-Continent Investment Co., supra,* the effort here made

to control competition in this unpatented device plainly violates the anti-trust laws, even apart from the price-fixing provisions of the license agreements. It follows that petitioner is entitled to be relieved against the consequences of those acts. It likewise follows that respondent may not obtain from a court of equity any decree which directly or indirectly helps it to subvert the public policy which underlies the grant of its patent. *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 494; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495." (Emphasis ours.)

The Court of Appeals in holding that the Hughes contract imposed only a reasonable limitation as to time, apparently did not consider that the limitation was actually a limitation of the use of the bit to the life of an unpatented part described in the combination patent. Such conclusion of the Court of Appeals apparently did not take into consideration the similiarity in principle between this case and the *Mercoid* case. In both cases, the user only received a license to use the product covered by the patent by agreeing to a restraint which the patent did not impose. In the *Mercoid* case, the restraint was the purchase of an unpatented element of the combination of the patent from the patentee only, while in the case at bar the effected restraint was to the right to effect a normal repair of the unpatented dulled teeth as necessary to complete the useful life of the bits. In both cases, the restraint is an enlargement of the patent monopoly beyond the limits of the patent grant.

The Court of Appeals for the Tenth Circuit after setting out the reasons for the "lease" justified the contract in the following manner (R. 246):

"* * * But here, as we have indicated, Hughes, by the lease agreements, merely imposes a limitation as

to the time the bits may be used, a limitation clearly within the range of its patent monopoly, and it does so, not for *ulterior* purposes, but to carry out a practical, reasonable and fair business practice that will enable it to better serve its lessee, maintain a high standard of quality in its products *and protect its business reputation.*" (Emphasis ours.)

Such holding is apparently in direct conflict with this Court's ruling in *International Business Machine Corp.* v. *United States,* 298 U. S. 131, where the restriction was upon the ultimate user of the leased product, and the lease terminated if the user utilized cards not manufactured by the lessor of the leased machine. Although the restriction against competitive cards was not expressly stated, this Court held the lease as violative of Section 3 of the Clayton Act, stating at page 135:

"It is true that the condition is not in so many words against the use of the cards of a competitor, but is affirmative in form, that the lessee shall use only appellant's cards in the leased machine. But as the lessee can make no use of the cards except with the leased machines, and the specified use of appellant's cards precludes the use of the cards of any competitor, the condition operates in the manner forbidden by the statute."

In the *Business Machine* case the patentee strongly contended that Section 3 of the Clayton Act was not applicable where the purpose and effect was to protect the good will of the lessor in the leased machines. Hughes in the case at bar, has, and no doubt will make this same contention. This Court in ruling that such was not an exception to the statute stated at pages 139-140:

"Appellant is not prevented from proclaiming the virtues of its own cards or warning against the danger

of using, in its machines, cards which do not conform to the necessary specifications, or even from making its leases conditional upon the use of cards which conform to them. For aught that appears such measures would protect its *good will,* without the creation of monopoly or resort to the suppression of competition."

"* * * we can perceive no tenable basis for an exception in favor of a condition whose substantial benefit to the lessor is the elimination of business competition and the creation of monopoly, rather *than the protection of its good will,* and where it does not appear that the latter can not be achieved by methods which do not tend to monopoly and are not otherwise unlawful." (Emphasis ours.)

In *International Salt* v. *United States,* 332 U. S. 392 (1947), this Court said at page 398:

"Rules for use of leased machinery must not be disguised restraints of free competition * * *."

If Hughes sold their bits under a sales agreement that the purchasers could not retip the unpatented dulled teeth, there seems to be little doubt that such procedure would be an illegal restraint. In the case at bar, Hughes' business methods and "lease" agreement have obviously only one real purpose, according to Hughes' senior vice-president (R. 127-132), to do by indirection what they are prohibited from doing directly.

It will be apparent that the above discussion has been limited to restraints generally and the cases relied upon as in conflict with the holding of the Court of Appeals for the Tenth Circuit have been concerned mainly with Section 3 of the Clayton Act. However, Hughes' misuse of the patents by extension of the lawful monopoly beyond the metes and bounds of the patent grant is contrary to the public policy

upon which the patent laws are predicated. Such misuse is in direct conflict with the significant decisions of this Court in *Morton Salt Co.* v. *Suppiger Co.,* 314 U. S. 488 (1942), and the companion case *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495 (1942). This Court in these cases denied equitable relief to the patentee where the acts of the patentee were a misuse, irrespective of the reasonableness of the restraint imposed. It is also significant that in the *B. B. Chemical* case the patentee's only offense was the bringing of a suit for infringement to enforce the patent, and by doing so seeking to obtain exclusive rights in an unpatented material.

It is noteworthy that when the "leased" drill bits are recaptured by Hughes, they are not re-leased, or re-rented, in any manner, thus having none of the characteristics of *rental property.* Of the many thousands of recaptured bits only 1 or 2% (R. 87) are returned to Houston for laboratory examination. Furthermore, Hughes receives the *full reward* upon delivery of each bit under the "lease" which is placed as such in their accounting books, and upon which their taxes are paid (R. 137-138). This clearly indicates that the transaction is a "sale," under the principles set out by this Court in *United States* v. *Masonite,* 316 U. S. 265, 277-278, and *Straus* v. *Victor Talking Machine Co.,* 243 U. S. 490, 498-500.

Conclusion.

The court below misconstrued the doctrine of repair versus reconstruction and has sanctioned a disguised restraint of competition which permits a patent owner to extend his monopoly beyond the limits of the patent grant. In doing so, the patent owner is causing an enormous amount of economic waste by destroying good drill bits in order to

sell new ones. The adoption of Hughes' scheme by industry would be a serious blow to the national economy in this time of national emergency.

Wherefore, it is respectfully submitted that this petition for writ of certiorari to the Court of Appeals for the Tenth Circuit should be granted.

CHARLES M. MCKNIGHT,
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Tulsa, Oklahoma,

ROBERT F. DAVIS,
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Washington, D. C.,
Counsel for Petitioner.

APPENDIX.

UNITED STATES COURT OF APPEALS
Tenth Circuit

Denver 1, Colorado,
June 2, 1950.

Charles M. McKnight,
Beacon Building,
Tulsa, Oklahoma.

Robert F. Davis,
Munsey Building,
Washington, D. C.

Edward A. Haight,
George I. Haight,
209 So. LaSalle Street,
Chicago, Illinois.

R. F. Campbell,
Gulf Building,
Houston, Texas.

Lynn Adams,
1405 Apco Tower,
Oklahoma City 2, Oklahoma.

Gentlemen:

Re: No. 3915, Williams v. Hughes Tool Co.

The court has decided that the above cause should be submitted to all five members of the Court of Appeals.

Please advise whether you are willing that it be submitted to Judge Bratton and Judge Pickett upon the records, briefs and memoranda filed, or whether you desire oral argument.

If you insist on oral argument, the case can probably not be heard until the regular September, 1950, session of the court. If you are willing to submit it on the records

and briefs, it probably can be disposed of during the summer months.

Yours very truly,

Orie L. Phillips, Chief Judge.

I hereby certify this to be a true and correct copy.

Signed, C. M. McKnight.

UNITED STATES COURT OF APPEALS
Tenth Circuit
Office of the Clerk

Denver 2, Colorado,
January 17, 1951.

Mr. Charles M. McKnight,
First National Bank Building,
Tulsa 3, Oklahoma.

Dear Sir:

I have appellant's designation of the parts of the record to be printed for petition for certiorari in case No. 3915, C. F. Williams, Jr., vs. Hughes Tool Company.

In your designation you request under item 6 Chief Judge Phillips' letter of June 2 to counsel, item 7 letter of McKnight dated June 8 to Judge Phillips, and under item 8 letter of George Haight answering Chief Judge Phillips' letter of June 2.

This correspondence is in Judge Phillips' file. I therefore took the matter up with the Judge. He said that these letters were no part of the certiorari record and should not appear in the certiorari record. Under the circumstances,

we are preparing the certiorari record without these three items.

Very truly yours,

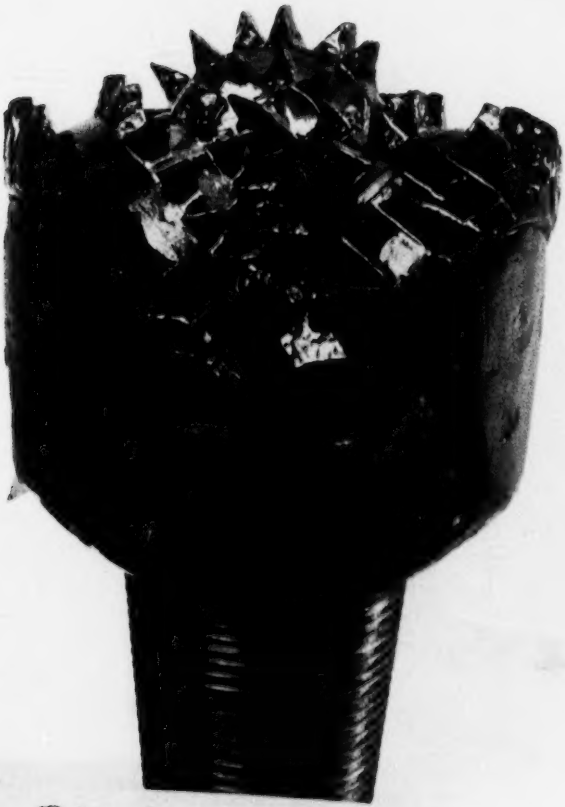
Robert B. Cartwright, Clerk.

RBC:gh

CC to: Mr. George Haight,
209 South LaSalle Street,
Chicago 4, Illinois.

I hereby certify this to be a true and correct copy.

Signed, C. M. McKnight.



PX 4 A RETIPPED BIT

PX23 A NEW BIT

PX 26 A DULL BIT

FILED
MAR 19 1951
CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1950.

No. 561

C. F. WILLIAMS, JR., *Petitioner,*

vs.

HUGHES TOOL COMPANY, *Respondent.*

BRIEF OF RESPONDENT IN OPPOSITION TO PETITIONER'S APPLICATION FOR WRIT OF CERTIORARI.

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The Scheffer Press, Inc.—ANdover 3-6850

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BRIEF OF RESPONDENT IN OPPOSITION TO PETITIONER'S APPLICATION FOR WRIT OF CERTIORARI.

Opinions Below.

The opinion of the District Court (R. 15) is reported at 82 F. Supp. 408. The opinion of the Court of Appeals (R. 234) is reported at 186 F. (2d) 278.

Jurisdiction.

The judgment of the Court of Appeals was entered December 2, 1950 (R. 258). The petition for a writ of certiorari was filed on or about February 19, 1951. The jurisdiction of this Court is invoked under 28 U.S.C. Sec. 1254 (1).

Questions Presented.

1. Whether the concurrent findings of the District Court, affirmed by the Court of Appeals, that the defendant rebuilt patented structures is "clearly erroneous".

2. Whether the leasing of an article, whether patented or unpatented, on condition that it be returned at the end of the term of the lease is an illegal "restraint".

Statutes Involved.

Sec. 3 of Clayton Act (15 U.S.C. Sec. 14)

"Sec. 14—Sale, etc. on agreement not to use goods of competitor.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

Oklahoma Stats. Ann. Title 15 Ch. 12—Hiring of Personal Property

"Sec. 531. Hiring defined.

Hiring is a contract of bailment by which the bailor, or letter, gives to the bailee, or hirer, the temporary possession and use of property for reward, the hirer agreeing to return the said property to the letter at a future time (R. L. 1910, Sec. 1125).

"Sec. 536. Use for purpose for which thing was let.

When a thing is let for a particular purpose, the hirer must not use it for any other purpose; and if he does, the latter may hold him responsible for its safety during such use, in all events, or may treat the contract as thereby rescinded (R. L. 1910, Sec. 1130).

"Sec. 545. Return of thing hired.

At the expiration of the term for which personal property is hired, the hirer must return it to the letter at the place contemplated by the parties at the time of hiring, or if no particular place was so contemplated by them, at the place which it was at that time. (R. L. 1910, Sec. 1139).

STATEMENT OF THE CASE.

Petitioner was found by the District Court to have infringed two of Respondent's patents and to have interfered with Respondent's contract rights respecting its own property. (R. 26) The Court of Appeals affirmed, except that the cause was remanded with instructions to terminate the injunction against infringement of one of the patents which had expired, pending appeal. (R. 258)

The articles involved are rock bits for use in rotary drilling for oil and gas. Respondent manufactures such articles which it distributes under a lease agreement throughout the oil fields of the United States. Petitioner does not manufacture such articles or sell or lease them. Petitioner operates a welding shop in Tonkawa, Oklahoma where, among other activities, he performs labor for about six of his customers in picking up and in rebuilding the worn teeth of Respondent's used rock bits and the worn teeth of used rock bits manufactured by Reed Roller Bit, Chicago Pneumatic Tool Company, Security Bit Company, H. C. Smith and others. (R. 105, 106) Only the rock bits

owned by Respondent and manufactured by it in accordance with its own patents are here involved, and no contention has been made in this case and no holding has been made by the Trial Court or by the Court of Appeals that Respondent's property rights and its patent rights extend to the rock bits of anyone else.

Petitioner recognized at all times that the used rock bits of Respondent retipped by him were not his property but were the property of Respondent, and were marked "property of Hughes Tool Company" (R. 106), but despite such knowledge and without Respondent's consent Petitioner rebuilt the worn teeth of such rock bits by welding new metal on to the stubs of the worn teeth in the attempt to construct or rebuild such teeth as near as possible to the shape, size, arrangement and interfitting, of the original teeth. (R. 107).

Each of Respondent's bits is marked as the property of Respondent and each bears a serial number by which it can at all times be identified. (R. 73, 105). Respondent has a field organization which delivers its bits directly to the drilling rig, and on delivery obtains from the driller or his representative a signed delivery ticket bearing a lease agreement as follows (R. 70, 134, 149):

> "Hughes Roller Rock Bits and all Core Bit Heads are never sold but are leased. When the original cutter teeth and/or bearing have served their useful life, the user will surrender the bits to Hughes Tool Company upon request. In accepting delivery, the user agrees not to surrender any of the tools as mentioned above to other than a duly authorized representative of the Hughes Tool Company."

Such field organization makes certain that the right type of bit is delivered for the particular drilling conditions existing at each rig, observes performance of all

bits, keeps records of formations drilled, hours on bottom, depth drilled, etc., which information is made available to the industry. (R. 70-73). These field men also pick up the worn bits of Respondent, examine them and in instances of abnormal performance refer the bit so identified to a district or division manager or a division engineer. (R. 71) When a more thorough examination is believed desirable, the bit with full information as to its performance and use is sent to Respondent's Research Department at Houston, where there is maintained a large laboratory with equipment for testing of bits, metallurgical investigation, chemical analyses, etc. (R. 69-73, 133, 134) The right to make examinations of such used bits and the right of forwarding such bit to the Research Department for extensive tests and studies results from Respondent's policy of reserving the right to repossess its bits after use by virtue of its lease agreement. By reason of such policy valuable information is obtained which affords a basis for evaluating performance as well as for maintaining and improving the quality of Respondent's product. The value to Respondent and to the industry of such policy is not challenged. Petitioner's witness Stevens corroborates Respondent's witnesses as to this. (R. 116)

The practice of leasing rock bits rather than selling them has not only been followed by Respondent for many years but also is widely used in the industry. (R. 107, 125, 215) The Petitioner, when he was president of Williams Iron Works Company, a former infringing manufacturer of rock bits, also marked his bits as property of such company and testified that in his opinion such bits were at all times the property of Williams Iron Works. (R. 106)

Witnesses for the Petitioner and for the Respondent agree that in most instances the life of a rock bit is gone

when it is once put into a hole and withdrawn. (R. 117, 125) In some instances, however, if the wear of the cutter surface has been much more rapid than the wear of the bearings because of some particular factor encountered, it is possible to build up new teeth and then rerun the rebuilt bits in soft formations near the surface of the ground. (R. 116) One of Petitioner's witnesses indicated that he found this to occur with one bit per month for each rig, which was about one bit in fifty. (R. 115) Another of Petitioner's witnesses testified that *in a particular area* he had used from 8 to 15 rebuilt bits for each 60 to 100 new bits (R. 122) which would be approximately one bit in 7 or 8 which could be so rebuilt and used. Such evidence refutes the contention of "an enormous amount of economic waste."

The patent in suit as to which Petitioner is enjoined has been characterized as a three cone interfitting bit and one of its characteristics is that the teeth on one cutter extend into grooves between the rows of teeth of the adjacent cutters, and in that manner interfit with the teeth of the adjacent cutters. The actions of the Petitioner of which the Respondent complains were picking up used bits of Respondent's manufacture and which remained its property, and adding metal to the stubs of the worn teeth and building up new teeth on the stubs of the old teeth in the form and arrangement of the original teeth and thereby restoring the interfitting characteristic of such patent. In such retipping or rebuilding of the worn teeth, the bearings of the bit are first washed, and then the attempt is made to determine the condition of the bearings by hand test of the looseness of the cones (R. 106). A torch is applied to the stub of a worn tooth to melt it, and then tungsten carbide tube metal is added so as to build up and restore the worn down teeth one at a time to their

original form and arrangement with resulting interfitting. (R. 107). The Petitioner testified that the only way of determining whether the bearings are in good condition is to see whether the cone is loose, that the bits are used in various drillings, sometimes very heavy drilling, and in some instances great weight is placed upon them, which was a severe service upon the bearings when used in deep formations, and that when so used, there may be little cracks and wear in the bearings and still the cones may not rattle. (R. 106). Petitioner further testified that a person can build up a tooth when it is quite worn, and that if one can see indications where the tooth has been, he can build it up and all he would need to know would be the location of the old tooth. (R. 107). Retipped or rebuilt bits lack uniformity in hardness; the bearings may not be good, and the driller can not be sure of them. (R. 125). The Respondent properly objects to risking its reputation on such retipped bits marked and identified as of its manufacture. (R. 88, 136).

ARGUMENT.

THE EVIDENCE ABUNDANTLY SUPPORTS THE CONCURRENT FINDINGS OF THE DISTRICT COURT AND THE COURT OF APPEALS THAT PETITIONER REBUILT THE PATENTED STRUCTURES.

The dispute between the parties as to whether the petitioner has "reconstructed" the patented structures or has merely "repaired" them is solely a factual dispute. As the Petition (p. 11) points out, decisions of this Court have established that "replacing of obviously temporary part that was clearly intended to be replaced" is "repair". On the other hand if the invention originally incorporated in a device is destroyed and then re-created, there has been "reconstruction".

The Petition suggests (pp. 11-12) that in the instant case the Court of Appeals applied some different test. In this the petitioner errs. The Court of Appeals discussed and applied the rules established by this Court. (See particularly the opinion of the Court, R. 240-242).

The Petition states that the fact that there were dissenting opinions "is eloquent testimony that uncertainty exists as to the law involved" (Petition, p. 11). This is in error. Judges Huxman and Murrah did not disagree with the District Court and the majority of the Court of Appeals as to the law. Judge Murrah stated (R. 253):

> "The majority treats the retipping operation as if it were performed on teeth which no longer perform their interfitting function. If I could agree to this premise, I should have no difficulty agreeing that the restoration of the teeth by retipping constitutes an infringing reconstruction".

Judge Huxman expressed the same thought (R. 249):

> "It is clear from the record that appellant's retipping operations are performed on bits whose teeth still intermesh * * *".

By "intermesh" and "interfit", reference was had to the characteristic of structures made under the Scott, et al, patent No. 1,983,316 (R. 141) that the rows of teeth on one conical cutter lie within grooves between rows of teeth on the adjacent cutters and in this sense "interfit" with those teeth. The cutters are not geared to each other but each rotates freely. The petitioner testified that in an average bit upon which he worked, the teeth were about half worn off (R. 105). It is immediately apparent from the photographs in the Appendix to the Petition that the teeth on one cutter cannot and do not extend completely to the bottom of the grooves of the adjacent cutters, and that on a new bit, the teeth on adjacent cutters overlap for less than their full height. Thus, with simultaneous wear on the teeth of all cutters, before the teeth are worn down for half of their height, they fail to overlap and fail to "interfit". It was the failure of Judges Huxman and Murrah to appreciate these facts which led to their dissents on this issue. The District Judge and the majority of the Court of Appeals were clearly correct in their understanding of the facts.

It is believed unnecessary to refer to the evidence establishing the outstanding contribution made to the art by the Scott and Garfield invention, or to refer to the abundant evidence supporting the decision of the Courts below. It is clear that the petitioner took structures in which the invention of Garfield and Scott had been destroyed and reincorporated that invention in them. The decision of the trial court, who saw and heard the witnesses, is in no sense "clearly erroneous" (Rule 52(a) Rules of Civil Procedure).

THE LEASING OF AN ARTICLE, WHETHER PATENTED OR UNPATENTED, ON CONDITION THAT IT BE RETURNED AT THE END OF THE TERM OF THE LEASE IS NOT AN ILLEGAL "RESTRAINT".

Respondent's lease contains only the restriction that when the lease terminates, the lessee shall return respondent's property to it. The lessee is left free to buy or lease bits and other equipment used in drilling where it wills. The record shows that lessees of respondent's bits do use bits of other manufacturers (R. 116, 120).

The only "restraint" in respondent's lease is the "restraint" which is inherent in any lease, or, indeed, any ownership of property. Leasing or hiring of personal property is a recognized legal transaction. It is widely used with respect to automobiles and machinery of all kinds, both by private parties[1] and by the Government.[2] It is widely used in the drilling industry and specifically in the distribution of bits (R. 106, 125, 215). Leases, *per se,* are not condemned by the anti-trust laws but are established, proper commercial transactions.

In *United States* v. *Bausch & Lomb Optical Co.,* 321 U. S. 707, 728 (1944), this Court in its opinion by Mr. Justice Reed said:

> "Congress has been liberal in enacting remedies to enforce the anti-monopoly statutes. But in no instance has it indicated an intention to interfere with ordinary commercial practice."

Section 3 of the Clayton Act (15 U.S.C. Sec. 14) specifically refers to the "lease * * * of goods, wares, merchandise, machinery, supplies, or other commodities" as a

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[1] See for example, **General American Tank Car Corporation v. Eldorado Terminal Company,** 308 U. S. 422 (1940).

[2] See for example, **United States v. County of Allegheny,** 322 U. S. 174 (1944).

saction prohibited *only* when on a condition that the ee shall not use or deal in the goods of a competitor. erent in this is not merely Congressional inaction, but roval of leases as legal, usual business transactions. ewise the legislature of Oklahoma has given statutory gnition to the validity of "hiring of personal property" lahoma Statutes Annotated, Title 15, Chapter 12, Secs. 536, 545). Specifically the legislature of Oklahoma has gnized that a thing may be let for a particular pur- (Sec. 536) and that at the expiration of the term it t be returned to the owner (Sec. 545).

he right of one owning property, whether patented or atented, to lease or sell at his own option, recognized Congress and the Oklahoma legislature, recognized and loyed by private individuals and the administrative ch of the United States Government, has been recog- d by this Court and was strongly affirmed in *Hartford-pire Co.* v. *United States,* 323 U. S. 386 (1945). That involved an appeal from the injunction against gross deliberate violations of both the Sherman Act and Clayton Act. The many and repeated deliberate vio- ns are set forth in the opinion of the District Court F. Supp. 541-622). Because of the vast extent of illegal activities of the defendants, the District Court eved that the right to lease patented articles should denied, since the Court feared that by the use of es rather than outright sale Hartford-Empire might e the means of enforcing unwritten, but illegal, condi- s upon the industry. The decree forbade any disposi- , or transfer of possession of machinery, by any means r than an outright sale. This Court affirmed the deci- of the District Court enjoining future violations of anti-trust laws but vacated the decree and remanded case because of the extent of relief granted. One of the

provisions which this Court struck from the decree was the requirement that Hartford-Empire should sell rather than lease its equipment.

This Court, in its opinion by Mr. Justice Roberts, said at page 412:

> "Paragraphs 21, 22, and 23 apply to the corporate defendants and to any of the individual defendants who shall hereafter engage in the business of distributing glassware machinery. They forbid any disposition or transfer of possession of such machinery by any means other than an outright sale. * * *
>
> "All of the appellants attack these provisions. A common ground is that this Court has held that the lease of a patented machine is a lawful method of exercising the exclusive patent right of practicing or using the invention,[10] and that effective relief may be afforded without destroying the appellants' property rights in the patents they own."

This Court further said at page 414:

> "Since the provisions of paragraphs 21 to 24 inclusive, in effect confiscate considerable portions of the appellants' property, we think they go beyond what is required to dissolve the combination and prevent future combinations of like character."

The dissent of Mr. Justice Rutledge expressly recognized the legality of the lease of patented articles, 323 U. S. 449:

> "The holder of a patent who observes the law is entitled to exercise his rights of ownership through lease as well as sale."

"[10]. **United States v. United Shoe Machinery Co.** 247 U. S. 32; **United Shoe Machinery Corp. v. United States,** 258 U. S. 451, 462. In this case, the court divided on the question of the legality of certain terms of the leases in question, but the dissentings justices did not suggest that a lease was not an appropriate method of exercising rights under the patent. Cf. **International Business Machines Corp. v. United States,** 298 U. S. 131."

e Petition (pp. 18-23) urges that the decision of the t of Appeals for the Tenth Circuit is in conflict with lecisions of this Court and other courts. Portions of pinion of this Court in *United Shoe Machinery Corp. nited States,* 258 U. S. 451 (1922) are quoted in the ion (pp. 18-19), and upon the basis of the quotations urged that the Court of Appeals held that the monop- f respondent's patents could be broadened by a lease eclude what is not covered by the patent. In quoting this Court's opinion, the Petition quotes what pre- and what follows this significant sentence (258 U. S. 58):

"When it is considered that the United Company occupies a dominating position in supplying shoe ma- hinery of the classes involved, these covenants signed by the lessee and binding upon him effectually prevent him from acquiring the machinery of a competitor of he lessor except at the risk of forfeiting the right to use the machines furnished by the United Company which may be absolutely essential to the prosecution and success of his business."

e vice which controlled the decision and about which Court was speaking in the portions of the opinion ed in the Petition was the preventing of the lessee acquiring machinery of a competitor of the lessor ex- at the risk of forfeiting the right to use machines of essor which might be "absolutely essential to the e". This does not exist in the present case. Lessees e respondent are free to use and do use machinery its of others (R. 116, 120). The lease does not prevent essee from acquiring what he will, and it does not re him to forfeit anything. The lease merely requires, l leases do, that when the lease is terminated the prop- shall be returned. Nor does the lease "broaden" a t monopoly. The rights asserted under the lease are rietary rights in the respondent's own property. They

are independent of whether that property be patented o unpatented, and independent of whether, if patented, th patents are owned by respondent or someone else.

Only three of the cases with which the Petition purport to find the decision herein in conflict involved leasin (*United Shoe Machinery Corp.* v. *United States,* 258 U. S 451 (1922); *International Business Machine Corporation* v *United States,* 298 U. S. 131 (1936); and *International Sal Co.* v. *United States,* 332 U. S. 392 (1947)). In none of thes cases was it held or even suggested that a lease was not a appropriate method of distributing an article whether pat ented or unpatented. The petition (page 24) quotes fro the opinion of the Court in the *International Salt* cas merely the first half of a single sentence. That sentenc concluded by pointing out that rules for use of leased ma chinery "may set reasonable standards which all supplier must meet." (332 U. S. 392 at p. 398). Further, in th *International Salt Company* case, 332 U. S. 392, this Cour not only recognized that a lease was a proper and lega method of distribution but further pointed out that reason able restrictions might be incorporated in leases. Thi Court, in its opinion by Mr. Justice Jackson, said at pag 397:

> "Of course, a lessor may impose on a lessee rea sonable restrictions designed in good faith to minimiz maintenance burdens and to assure satisfactory opera tion."

The decision of the Court of Appeals that a provision i a lease that the leased property must be returned when th lease terminates is a reasonable restriction and is supporte by the decisions of this Court, by legislative recognitio given to leases, and by the widespread use of them not onl by private industry but by the Government itself. Tha decision is not in conflict with any decision of this Cour or any decision of any Court of Appeals.

CONCLUSION.

For the foregoing reasons, it is submitted that the Petition for a Writ of Certiorari be denied.

Respectfully submitted,

GEORGE I. HAIGHT,
ROBERT F. CAMPBELL,
Attorneys for Respondent.

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In the Supreme Court of the United States

OCTOBER TERM, 1950

No. 561

C. F. WILLIAMS, JR., PETITIONER

v.

HUGHES TOOL COMPANY

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

MEMORANDUM FOR THE UNITED STATES AS AMICUS CURIAE IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

INTEREST OF THE UNITED STATES

The court below, sitting *en banc*, has sharply divided on several questions of considerable public importance relating to the rights of a patentee holding a combination patent to prevent repair or reconstruction of an unpatented part of a patented combination in the hands of a licensee. The Government believes that the decision conflicts both with decisions of this Court, particularly *Mercoid Corp.* v. *Mid-Continent Investment Com-*

pany, 320 U.S. 661, and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.,* 320 U.S. 680, and with decisions in other circuits, and that authoritative determination of the questions raised is of importance in the administration of the antitrust laws and to the public generally. The Government further believes that if the decision below is allowed to stand, the opportunities for patentees to enlarge their monopolies to cover unpatented goods will be seriously enhanced.

STATEMENT

Petitioner operates a machine shop which does oil field repair work and, as a part of its general business, welds new metal on cutting teeth of bits of oil well drills when the teeth have become worn through use (R. 5, 102-103). This work, generally called retipping, is done only if the bearing in the bit is found to be sufficiently unworn from use so that the drill, after the teeth have been repaired, will still operate efficiently (R. 104-105, 108). It has been estimated that 12 to 15% of worn bits may usefully be retipped (R. 240). Petitioner has been retipping for drilling contractors and oil companies since 1940 (R. 103). He has retipped for about 55 customers and presently has about 6 customers (R. 103, 104). A majority of the bits which he retips were manufactured by the respondent (R. 107).

The cost of retipping worn teeth is about one-third the cost of a new bit (R. 114) and the great

majority of drilling contractors and oil companies have their bits retipped (R. 122). One company alone had 245 bits retipped in a single year (R. 114), and a drilling contractor estimated that his saving from retipping averaged over $7,000 a year (R. 118, 121). Petitioner believed that there were at least 50 retipping shops, each employing from two to five people, in the States of Illinois, Kansas, Oklahoma and Texas (R. 104).

Respondent leases its bits under terms which require a lump sum payment and return of the bits to respondent upon request when "the original cutter teeth and/or bearing have served their useful life" (Pltf. Ex. 18, R. 149; R. 137-138). Respondent does not retip the bits which are returned to it, and they are ultimately sold as scrap, although a few of the worn bits are first examined and tested in respondent's laboratory (R. 87-89, 133).

Respondent instituted the present proceeding by filing a complaint in two counts. The first alleged that respondent owns two patents on bits for drilling wells, that it leases but does not sell its bits, and that petitioner retipped worn teeth on these bits and thereby infringed respondent's patents (R. 1-2). The second count alleged that respondent leases its bits upon terms which require surrender of the bits to respondent when the original teeth or bearing "have served their useful life", and that petitioner converts respondent's

bits when he retips them with knowledge of this restriction (R. 3-4). Each count prayed for an award of damages and injunctive relief (R. 3, 4).

The district court, after a hearing, filed an opinion holding that petitioner's retipping infringed respondent's patents, but that the proof failed to establish conversion of respondent's bits by petitioner (R. 15, 18-22). The court accordingly entered a judgment which declared that petitioner should be enjoined "from reconstructing worn or used bits to embody the inventions of" the claims of the two patents on which suit was based (R. 27).

On appeal to the Court of Appeals for the Tenth Circuit, the case was ultimately considered and decided by the court sitting *en banc* (R. 230-231, 233-234). Prior to decision on appeal, one of the two patents involved had expired (R. 247). The court held that the other was a valid "combination" patent (R. 238), and that petitioner's retipping of the bits was a reconstruction, constituting infringement, rather than a repair (R. 240-244). The court also held that the lease arrangements of respondent with its licensees validly terminated when the useful life of the original teeth was at an end and that when this event occurred, "the right of the lessee to use the bit ceased and with it his right to repair the bit, and the repair of the bit thereafter constituted an infringement" (R. 245). And the court held that the leasing arrangements were not a misuse of patents or a violation of the Clayton Act (R. 244-247). The court remanded the

case to the district court with instructions to terminate the injunction insofar as it enjoined infringement of respondent's expired patent. It affirmed the judgment in all other respects (R. 247).

Two judges, dissenting, were of the opinion that retipping was permissible repair of respondent's bits and therefore not an infringement of its patent (R. 247-258).[1] One of the dissenting judges (Huxman, J.) was of the view that the lease agreement should not be construed as forbidding retipping (R. 249). The other (Murrah, J.) agreed with the majority as to the interpretation of the lease, but thought that the question whether, as so interpreted, it involved a violation of the Clayton Act, should now be considered by the trial court (R. 254-258).

DISCUSSION

The majority of the court below has apparently held petitioner's retipping activities to be unlawful on two theories—first, that apart from the lease restrictions, retipping is reconstruction rather than repair and therefore constitutes infringement, and second, that even if retipping is merely repair, it nevertheless constitutes contributory infringement[2] because performed after the

[1] One of the dissenting judges (Huxman, J.) also believed the combination patent invalid for want of invention (R. 247).

[2] The court does not use the term contributory infringement, but since it recognizes that repair which stops short of reconstruction is ordinarily permissible, and since the petitioner does not himself vend or use the bits, it seems clear that, at the most, contributory infringement is involved. In other

lessee's right under the lease to use the bit has terminated.

I

The mixed question of law and fact as to whether a particular repair on a particular patented combination is of such a major character as to constitute a reconstruction of the combination would not ordinarily, it may be assumed, be regarded as a question warranting review by this Court. But the standards laid down by the majority of the court below seriously conflict with a number of decisions in other courts of appeals, and greatly narrow the scope of permissible repair to patented combinations.

The court below recognized the authority of *Wilson* v. *Simpson,* 9 How. 109, and the line of cases following it [3] which hold that the owner of a patented machine may replace parts of that machine without infringing the patent. As stated in the *Wilson* case (9 How., at 123):

> repairing partial injuries, whether they occur from accident or wear or tear, is only refit-

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words, petitioner may be aiding the lessees of respondent's bits to use the bits after the termination of their leases but is not making, using or vending the invention himself.

[3] See e.g., *Cotton-Tie Co.* v. *Simmons,* 106 U.S. 89; *Morgan Envelope Co.* v. *Albany Paper Co.,* 152 U.S. 425; *Heyer* v. *Duplicator Mfg. Co.,* 263 U.S. 100; *Shickle, Harrison & Howard Iron Co.* v. *St. Louis Car-Coupler Co.,* 77 Fed. 739 (C.A. 8); *Goodyear Shoe Machinery Co.* v. *Jackson,* 112 Fed. 146 (C.A. 1); *Slocomb* v. *Layman,* 227 Fed. 94 (D. Del.), affirmed, 230 Fed. 1021 (C.A. 3); *Fogelsong* v. *Randall,* 239 Fed. 893 (C.A. 6); *Cinema Patents* v. *Craft,* 64 F. 2d 42 (C.A. 3); *General Motors* v. *Preferred Electric & Wire Corp.,* 79 F. 2d 621 (C.A. 2).

> ting a machine for use. And it is no more than that, though it shall be a replacement of an essential part of a combination.

But the court below held that the only type of repairs to which this doctrine applies is that involving parts designed to be expendable and to be replaced in the course of the life of the machine (R. 241-242). Since the cutting teeth more often than not last as long as the bearings, and the patentee has indicated in his leasing provision that he expects the bit to be returned at the end of the life of either, the court concludes that the patentee did not regard the teeth as expendable. In other words, the court below has laid down a subjective standard which permits patentees to prevent any repair of a patented machine by expressing the intention that the life of the machine is to be measured by the life of the fastest wearing part. Thus the useful life of a patented invention is artificially limited. For the contrary, and we think better view, that a part which wears out before other parts is *ipso facto* expendable and may be replaced, see *Slocomb* v. *Layman,* 227 Fed. 94, 98 (D. Del.), affirmed, 230 Fed. 1021 (C.A. 3).

The court further held that the unpatented teeth are the novel element of the instant combination and that to replace the element is "not permissible repair, but reconstruction" (R. 243-244). Assuming, *arguendo,* that the teeth do constitute a novel element in respondent's patented combina-

tion (but cf. dissenting opinion of Murrah, J. (R. 253)), the holding nevertheless appears to be in square conflict with *Goodyear Shoe Machinery Co.* v. *Jackson,* 112 Fed. 146 (C.A. 1), and *General Motors* v. *Preferred Electric & Wire Corp.,* 79 F. 2d 621 (C.A. 2), which held that even an essential unpatented part of a patented combination may be replaced.[4] And the holding that the replacement of an unpatented part of a patented combination is infringement would seem also to conflict in principle with the decision of this Court in *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.,* 320 U.S. 680, 684, where the Court said:

> The fact that an unpatented part of a combination patent may distinguish the invention does not draw to it the privileges of a patent. That may be done only in the manner provided

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[4] In the *Goodyear* case, defendants were charged with contributory infringement in repairing patented sewing machines. The court said (112 Fed. at 155):

"* * * It cannot be said, therefore, that the replacement by the purchaser of the cam or the pull off lever which moves the pull off truck constituted an infringement of the patent, although it may be this cam was the characteristic and most essential element in the combination. The breaking or wearing out of this cam resulted in only a partial destruction of the patented combination, and its replacement by a new cam was plainly a restoration, and not a substantial reconstruction of the combination."

The *General Motors* case involved alleged contributing infringement of patents on ignition apparatus used in automobiles. The defendant sold certain parts used in the patented combinations. The court said (79 F. 2d at 623):

"Whether the appellant's breaker arms and contact brackets constitute the 'gist of the invention' sued on, as suggested in the findings below, is immaterial. Indeed, the gist or essence of the combination of mechanical elements lies in the combination as a whole."

by law. However worthy it may be, however essential to the patent, an unpatented part of a combination patent is no more entitled to monopolistic protection than any other unpatented device.[5]

II

The court below has held that respondent has validly limited to the original life of the teeth the rights of his lessee to use the patented bits. The Government believes that in the circumstances of this case the lease restriction, as interpreted by respondent and the court below, is a misuse of patents and probably a violation of Section 3 the Clayton Act and Section 1 of the Sherman Act. Cf. *International Salt Co.* v. *United States,* 332 U.S. 392. The patentee in substance, though not in form, sells the patented combination subject to the restriction that the bit may not be retipped. The lease is in effect made on the condition that the lessee will not utilize the materials and services of retippers who are in substance competitors of respondent. The lease forecloses these competitors from the substantial market consisting of all uses which might be made of worn bits manufactured by respondent.

"The owner of a patent cannot extend his statutory grant by contract or agreement." *United*

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[5] And see *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, 668, expressly repudiating the contrary rule of *Leeds & Catlin Co.* v. *Victor Talking Machine (No. 2),* 213 U.S. 325.

State v. *Masonite Corp.*, 316 U.S. 265, 277. The leasing arrangement here, like the *del credere* arrangement in the *Masonite* case, cannot be used to enlarge the patent monopoly. Even if it be assumed that the transactions here are intended in good faith to be leases,[6] "Rules for use of leased machinery must not be disguised restraints of free competition." *International Salt Co.* v. *United States,* 332 U.S. 392, 398. Respondent could not prevent repair of the patented bits if he sold them; he should not be allowed to circumvent that salutary rule by "leasing" them until such time as they need repair and then reclaiming and scrapping them.

In *International Business Machines Corp.* v. *United States,* 298 U.S. 131, this Court struck down under Section 3 of the Clayton Act a leasing arrangement whereby business machines were leased on the condition that the lease should terminate if cards not manufactured by the lessor were used in the leased machines (see 298 U.S. at 134). Respondent seeks to impose a similar restriction in a different way. Instead of providing that the lease shall terminate if the lessee has the teeth of the bits repaired, the lease, as construed, provides that it shall terminate when the teeth need repair. The effect is the same.

If respondent's leasing arrangements are sus-

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[6] Cf. R. 137-138 indicating that on its own books respondent treats the transactions as if they were sales.

tained, an economically useful business—retipping—will be entirely eliminated in the line of commerce in respondent's patented bits, and respondent's licensees will be required to lease new bits from respondent when the old bits could be made serviceable at a lesser cost.

III

Even if it be assumed *arguendo* that respondent's lease, as construed by the court below, validly terminates its lessee's right to use the bit as soon as the original teeth become unusable, the question remains whether petitioner is a contributory infringer. In *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, this Court held that a combination patent confers upon its owner no right to monopolize supply of an unpatented element of the patented combination and that knowingly to supply such element is not infringement. That case involved a combination patent covering a heating apparatus composed of three main elements, a stoker to feed fuel to a furnace, a room thermostat controlling the feeder, and a combustion stoker switch—itself unpatented—to control the feed of fuel to prevent the fire from going out when the furnace temperature is comparatively low. The patent owner licensed use of the patented system only if there was used therein the stoker switches of a particular manufacturer. Sale of such switches for use in the patented sys-

tem was held not to infringe rights conferred by the combination patent.

The Court pointed out that the owner of a machine or process patent may not control unpatented materials consumed in or necessary to its operation since to do so would expand the monopoly of the patent beyond the scope of the grant (320 U.S. at 664-665). It held that the same principle applies where a patentee attempts to control an unpatented material or device which is an element of a patented combination even though such element is deemed the "heart of the invention" (*id.*, 665, 667). The Court said (*id.*, 667-668):

> The patent is for a combination only. Since none of the separate elements of the combination is claimed as the invention, none of them when dealt with separately is protected by the patent monopoly. *Leeds & Catlin Co.* v. *Victor Talking Machine Co. (No. 1)*, 213 U.S. 301, 318. Whether the parts are new or old, the combination is the invention and it is distinct from any of them. * * * If such an expansion of the patent monopoly [to include the stoker switch] could be effected by contract, the integrity of the patent system would be seriously compromised.

Under this decision and the companion case of *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, there is no room for the doctrine that one who supplies an unpatented part of a patented combination is guilty of contributory

infringement. In the instant case the court below specifically found that the unexpired patent on which suit is based is a "combination" patent composed of "old elements" (R. 238). This was likewise the view of the two Circuit Judges who dissented below (R. 247, 249, 252) and of the Court of Appeals for the Fifth Circuit.[7] The patent itself (No. 1,983,316) makes no claim to invention with respect to the form or shape of the teeth of the three-cone bit on which patent issued (R. 144). Indeed, the bit's teeth are in the public domain—a patent on their form and shape has long since expired (R. 195-196).

Since the teeth on respondent's bits are an unpatented element of a combination patent, under the *Mercoid* decisions supply of teeth for use as part of the patented combination would not constitute infringement. *A fortiori,* building up the teeth when they have become worn is not infringement. The *Mercoid* cases show that the principle that the use of unpatented materials cannot be tied to patented ones is the same whether the unpatented element is part of the patented combination or whether it is outside of that combination.[8]

The essence of the *Mercoid* decisions was that a patentee cannot, by force of contract, bring an un-

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[7] *Robertson Rock Bit Co.* v. *Hughes Tool Co.*, 176 F. 2d 783, 790, certiorari denied, 338 U.S. 948.

[8] Accord: *Morgan Envelope Co.* v. *Albany Paper Co.*, 152 U.S. 425, 432-433; *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27, 33; *International Business Machines Corp.* v. *United States*, 298 U.S. 131, 136-138.

patented element of a patented combination within the scope of his patent monopoly. It therefore follows that the present respondent did not and could not bring unpatented teeth within the scope of its patent monopoly by contract provisions requiring surrender of leased bits when the original teeth had served their useful life.

For the reasons stated, the decision below is in conflict with applicable decisions of this Court and those in other circuits, and questions of public importance are presented which should be settled by this Court. It is respectfully submitted that the petition for a writ of certiorari should be granted.

PHILIP B. PERLMAN,
Solicitor General.

MARCH 1951.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1950.

No. 561

C. F. WILLIAMS, JR., *Petitioner,*

vs.

HUGHES TOOL COMPANY, *Respondent.*

RESPONDENT'S REPLY TO MEMORANDUM FOR THE UNITED STATES AS AMICUS CURIAE.

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RESPONDENT'S REPLY TO MEMORANDUM FOR THE UNITED STATES AS AMICUS CURIAE.

STATEMENT.

The case is stated in the Brief of Respondent heretofore filed.

I.

The Evidence Abundantly Supports the Concurrent Findings of the District Court and the Court of Appeals on the Factual Issue that Petitioner Rebuilt the Patented Structures.

The Government Memorandum (page 6) concedes that the issue which it characterizes as a "mixed question of law and fact" is one which would not ordinarily be regarded as a question warranting review by this Court; but it is urged that the Court of Appeals laid down standards which conflict with decisions in other Courts of Appeals. Not only does the opinion of the Court of Appeals show the contrary but the Government's Memorandum frankly admits that the Court of Appeals had recognized the au-

thority of *Wilson* v. *Simpson*, 9 How. (50 U. S.) 109, and the line of cases following it which hold that under certain fact situations the owner of a patented machine may replace parts of that machine without infringing the patent. Consequently no conflict of decision appears and actually the attempt to have this Court review the decision of the Court of Appeals turns upon an analysis of the particular facts in the instant case. There is no dispute as to the principle of the controlling cases, but the dispute between the parties is solely a factual dispute with which this Court is ordinarily not concerned.

The Government Memorandum (page 3) is also predicated upon the erroneous factual assumption that "a few of the worn bits are first examined and tested in Respondent's laboratory". The record shows that every worn bit is examined. This examination is made by one of Respondent's field men, and in many instances there is a further examination by a division or district manager and a division engineer (R. 71, 133). Of the bits so examined, some are further sent to Respondent's laboratory together with information as to their performance and the conditions under which they drilled for thorough study and evaluation by Respondent's Engineering and Research Departments (R. 71, 133).

The Government Memorandum (page 7) suggests a conflict between the decision of the Court of Appeals in this case and *Slocomb* v. *Layman*, 227 Fed. 94, 98 (D. Del. 1915); affirmed 230 Fed. 1021 (C.C.A. 3, 1916). An examination of the facts of that case show that it involved an expensive machine which would last about twenty years. Some of its parts required replacement every few months or every year. The Court decided that the sale of these anticipated repair parts "in the absence of a stipulation to the contrary" constituted permissible repair. In

the instant case the teeth and the cone of the device patented are a solid element, not separate elements, and building the teeth back on the cone in the original interfitting pattern is reconstruction of the solid element and not a repair. The difference in result was due to differences in fact and not to a difference in standards applied.

The Government Memorandum sugggests (pages 7 and 8) that there is a conflict between the decision of the Court of Appeals in this case and the decisions in *Goodyear Shoe Machinery Co.* v. *Jackson,* 112 Fed. 146 (C.C.A. 1, 1901), and *General Motors* v. *Preferred Electric & Wire Corp.,* 79 F. (2d) 621 (C.C.A. 2, 1935). In this instance, also, the difference in result was due to differences in facts and not to any varying application of the well established standards. In the *Goodyear Shoe Machinery case,* the Court held that the purchaser of a sewing machine could properly replace a broken little cam, and one selling replacement cams did not infringe a patent on the sewing machine. In the *General Motors* case, the Court held that the purchaser of an automobile could replace a worn breaker arm in the timer (which was expected to wear out and was made quickly detachable and replaceable), and that one selling replacement breaker arms did not infringe a patent on an ignition system. The seller and the purchaser of either a sewing machine or an automobile anticipate that such replacement may be required if the purchaser is to get the use of what he bought. The facts of such cases are in no sense analogous to the facts of the present case.

II.

The Leasing of an Article, Whether Patented or Unpatented, on Condition that It Be Returned at the End of the Term of the Lease, Is not an Illegal "Restraint".

The Government Memorandum (pages 9-10) suggests that the Respondent's lease contains a tie-in agreement. The reasoning is that the lease forecloses use by the lessee of the materials and services of Petitioner and others similarly engaged. The contrary is true. The lease contains merely the provision that Respondent's property shall be returned to it on expiration of the term. It does not foreclose the use by lessee of bits obtained from other sources nor does it foreclose the use by lessee of the materials and services of Petitioner on bits not of Respondent's manufacture. Such lessee is free to procure bits from other sources and to have such other bits rebuilt by Petitioner or any one else without objection from Respondent.

The Government Memorandum (page 10) states that the effect of Respondent's lease is the same as the leasing of business machines on condition that the lease shall terminate unless cards manufactured by the lessor are used as in *International Business Machines Corp.* v. *United States,* 298 U. S. 131 (1936). The cases are not the same. The various business machines require over three and a half billion cards annually. The expensive machines would be valueless without the cards. The lessor of the machines tied in to its lease of the machine the purchase of the required cards. In the present case, no other commodity, patented or unpatented, is tied in with the lease of Respondent's bits.

III.

No Question of Contributory Infringement Is Involved.

The Government Memorandum (pages 11-14) suggests that the present record raises the question as to whether or not Petitioner is a contributory infringer, and in this connection refers to *Mercoid Corporation* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944). In the *Mercoid* cases a patent owner sought to justify the tie-in of unpatented switches to its license of a patented combination of which the switches were a part. The Respondent requires no tie-in and no charge of contributory infringement has been made. The Government Memorandum (Footnote 2, p. 5) points out that the Court of Appeals did not use the term "contributory infringement". The reason for this is that contributory infringement is not involved. The Petitioner is a direct infringer because he takes metal, not embodying the patented combination, and from it rebuilds the patented combination and thereby makes the invention. The concurrent findings of the courts below as to this factual question are contrary to the assumption of the Government Memorandum (see Brief of Respondent in Opposition to Petitioner's Application for Writ of Certiorari, pp. 8-9).

For the reasons stated, the decision of the Court of Appeals and of the Trial Court are not in conflict with any decisions of this Court or of Courts in other circuits. The legal principles involved have been settled by numerous decisions of this Court, and were recognized and applied by the Courts below. Concurrent fact findings of those Courts do not require further review.

Respectfully submitted,

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Attorneys for Respondent.

Office Supreme Court, U.
FILED
APR 23 1951
CHARLES ELMORE CROP

No. 561

In the Supreme Court of the United States

October Term, 1950

C. F. WILLIAMS, JR., *Petitioner,*

vs.

HUGHES TOOL COMPANY, *Respondent.*

On Petition for Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit.

PETITION for REHEARING.

CHARLES M. MCKNIGHT,
First National Bldg.,
Tulsa, Okla.,

ROBERT F. DAVIS,
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Washington, D. C.,
Attorneys for Petitioner.

April 20, 1951.

IN THE SUPREME COURT OF THE UNITED STATES.
October Term, 1950.

No. 561

C. F. WILLIAMS, JR., *Petitioner,*

vs.

HUGHES TOOL COMPANY, *Respondent.*

On Petition for Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit.

PETITION *for* REHEARING.

Williams petitions for rehearing for the following substantial reasons not previously urged:

We are faced in this situation with a trend of decisions in the two Circuits that encompass the major oil producing areas of this country, which trend is wrong, and which is highly important to the entire oil industry, but which we are powerless to correct without intervention of this Court.

We sincerely believe that the erroneous trend arose through a long series of cases in nearly all of which respondent Hughes was plaintiff, and all of which respond-

ent won.[1] The earlier of these were probably decided correctly, but by reason of weak defense efforts, a gradual expansion of respondent's claims, and a natural tendency of the Courts of the Fifth and Tenth Circuits, to follow their own decisions, and the decisions of each other, even though changing factual situations, respondent has progressively enlarged and extended the monopoly of its patents to an

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a. Reed v. Hughes Tool Co., (C. C. A. Tex.) 282 Fed. 807 (1922); Patent: 930,759.

b. Reed Roller Bit Co. v. Hughes, (C. C. A. Tex.) 12 F. (2d) 207 (1926); Patent: 930,759.

c. Hughes Tool Co. v. International Supply Co., (C. C. A. Okla.) 47 F. (2d) 490 (1931); Patents: 1,320,384, 1,480,014.

d. Hughes Tool Co. v. Garber Tool Co., (D. C. Okla.) 16 U. S. P. Q. 97 (1932); Patents: 1,320,384, 1,480,014, 1,647,753.

e. Chicago Pneumatic Tool Co. v. Hughes Tool Co., (C. C. A. Okla.) 97 F. (2d) 945 (1938), cert. den. 305 U. S. 643; Patent: 1,647,753.

f. Southwestern Tool Co., et al., v. Hughes Tool Co., (C. C. A. Okla.) 98 F. (2d) 42 (1938); Patents: 1,320,384, 1,480,014, 1,647,753.

g. Hughes Tool Co. v. United Mach. Co., et al., (D. C. Tex.) 35 F. Supp. 879 (1939); Patents: 1,480,014, 1,647,753 and 1,856,627 on cutters and 1,905,079, 2,011,084, 2,030,442 and 1,983,283 on bearings.

h. Williams Iron Works v. Hughes Tool Co., (C. C. A. Okla.) 109 F. (2d) 500 (1940); Patents: 1,480,014, 1,647,753, 1,856,627 on cutters; 2,011,084, 2,030,442 on bearings.

i. Hughes Tool Co. v. Owen, et al., (C. C. A. Tex.) 123 F. (2d) 950 (1941); Patents: 1,647,753 and 1,856,627.

j. Chicago Pneumatic Tool Co. v. Hughes Tool Co., (C. C. A. Del.) 61 F. Supp. 767, affirmed 156 F. (2d) 981, cert. den. 329 U. S. 781 (1946); jurisdiction refused.

k. Hughes Tool Co. v. Robertson Rock Bit Co., et al., (C. C. A. Tex.) 176 F. (2d) 783 (1949), cert. den.; Patents: 1,856,627, 1,983,316, 2,011,084 and 2,030,442.

l. Hughes Tool Co. v. Chicago Pneumatic Tool Co., (D. C. Okla.) 85 U. S. P. Q. 455 (1950); Patents: 1,856,627, 1,983,316, 2,011,984, 2,030,442.

entirely unjustified monopoly extending beyond both the scope and lifetime of its patents.[2]

This has been done partly by joining in litigation later-issued unadjudicated patents, and earlier-issued adjudicated patents so that the Courts have tended to adjudicate the later-issued patents as valid and infringed without independent consideration.

It has been accomplished by repatenting the same inventions over and over again, as suggested twenty years ago in *Hughes* (the respondent here) v. *International*, 47 F. (2d) 490 (C. C. A. 10), in a dissenting opinion by Judge McDermott:

> "* * * Personally, I cannot see where it involves even mechanical skill. If alignment of a third hole involves inventive genius, I cannot see why the plaintiff may not, when the present patent has expired, insert a shim or washer between the bushing and ring, put a hole therein, align this *fourth* hole with the *three* already aigned, patent the additional alignment, and extend its monopoly ad infinitum. Counsel ask, Why was it not done before? Many answers suggest themselves, one of which is that a prudent manufacturer, protected by a patent as was true here, would prefer to let the operator assemble rather than assume all the risk of unsatisfactory results from a device already assembled. *When the old patent expired, this device was resorted to in order to extend the term of the patent.* Business success is little argument where, by virtue of a patent monopoly, the plaintiff controlled the field for seventeen years." (Emphasis added.)

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2 In Wabash Corp., et al., v. Ross Electric Corp., et al., 88 U. S. P. Q. 393, Judge Frank, the Second Circuit Court of Appeals, cited Hughes Tool Co. v. Chicago Pneumatic Tool Co., 90 F. Supp. 845, 847, as an example, saying (page 403):

> "It gives the patent-owner, gratuitously, a highly persuasive precedent for use in litigation, with other prospective defendants, thereby hurting the public interest."

It has been accomplished in the presnt case by patenting and sustaining a patent on the interfitting of the rows of teeth *on a three-cone bit*[3] long after the respondent patented the interfitting of the rows on a *"two or more" cone bit.*[4] Next time it will probably be a patent on a four-cone bit. The Tenth Circuit Court of Appeals here obviously did not apply the proper standard of invention.[5]

This enlarged monopoly has been accomplished in the present instance by the use of a contract (Hughes lease, R. 149) that has prevented a clear test of infringement of the respondent's patent or patents. This contract makes it so uncertain as to whether the petitioner is infringing a patent, or violating a contract that the Tenh Circuit Court of Appeals, even after a sitting "in banc," has never made the matter clear. The unexpired patent will expire in December of this year, and then, its monopoly will apparently

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3 Scott, et al., 1,983,316 (R. 141).

4 Scott, 1,480,014 (R. 189).

On page 1 (R. 191), line 82, this patent says:

> "It will be obvious that these cutting rollers will be formed in *sets of two or more* and the rows of teeth upon one cutter are positioned upon the cutter so they will be offset slightly from those of the adjacent one, thus allowing the teeth to interfit as shown in the drawing."

In Williams Iron Works v. Hughes Tool Co., 109 F. (2d) 500, 502, the Tenth Circuit Court of Appeals said with reference to this earlier patent:

> "The embodiment of the invention illustrated in the patent drawings employs two cutters, although the patent is not limited in this respect and the more common practice today is to employ three cutters."

5 This Court apparently granted Certiorari in Crest v. Traeger, No. 446, (argued April 10, 1950) for the purpose of clarifying the standard or test for invention. From listening to the argument and considering the briefs, it becomes apparent that the facts will not lend themselves satisfactorily to this purpose. A comparison of the patent in suit here (R. 141), and only one or at the very most two prior art patents (R. 189 and R. 179) provides a clear cut situation in which to point out, once and for all, whether the ordinary step-by-step changes in the art are to be considered invention.

be extended, directly contrary to law, by this private contract.[6]

It has been accomplished by contracting out of existence the patent doctrine of permissible repair. Apparently petitioner cannot even make a minor repair to a Hughes' bit, because of the contract. This is a clear extension of the patent monopoly.

The private contract involved has been called a sale on the books of the respondent, and to the Bureau of Internal Revenue and to the property taxing authorities, for the purpose of reducing taxes.[7] To the exact contrary, it has been called a "*lease*" in this litigation so as to effectuate a restraint of trade. Judge PHILLIPS said during the second oral argument that the contract would obviously be a restraint of trade if it were a sale, and so it would be, but the Court permitted it to be called a lease for one purpose, and a sale for another.

Because some of the same patents were involved, we feel that even the Petition for Certiorari to this Court in this case was unconsciously prejudiced by *Robertson* v. *Hughes*, No. 486, which very shortly preceded it in this Court. This case is definitely *not* a "rehash" of the *Robertson* case. We have here a very different situation, and one deserving of consideration upon its own merits. Robertson was a copying manufacturer; Williams is a simple repair man doing an old well-known repair that has been done to bits of all kinds for many years.[8]

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6 Petitioner attempted to obtain a clarification of this point (last paragraph of Petition for Rehearing below, R. 263); Respondent urged that the contract by right of proprietorship was effective regardless of patents (R. 266); and the Court of Appeals refused to clarify its decision (R. 266).

7 Interrogatories and Anwers (R. 223-226); Garmany deposition (R. 137-138).

8 (R. 199-221)- (R. 175-178)

In the present situation, the regularity with which respondent has had its patents held both valid and infringed points to one of two conclusions. (*1*) The respondent is a model of propriety in the way in which it obtains and *uses* patents, and if others followed the pattern we would not have so many holdings of invalidity and non-infringement, or (*2*) the trend of the decisions is wrong, as we have above indicated.

In either case, a review by this Court could do much to clarify the law as to whether or not the ordinary step-by-step changes in the art are patentable, for they certainly involve no "flash of genius." It could also do much to fix for the future the weight to be given precedent in patent cases.

The monopoly here has grown from the justified protection of an invention to the crowding out of business of ordinary repair men, and the burdening of the whole oil industry with the extra price of thousands of unneeded new tools only to swell the coffers of the manufacturer. If this can be done in one industry, it can be done in all industries and the trend and force of these economically unsound decisions in the Fifth and Tenth Circuits will become more vicious and harder to correct as time passes. It should be corrected now.

Respectfully submitted,

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April 20, 1951.

CERTIFICATE.

We hereby certify that the foregoing Petition for Rehearing is filed in good faith and not for the purpose of delay.

CHARLES M. MCKNIGHT,

ROBERT F. DAVIS.